



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Annapolis Bancorporation, Inc.

Person to be contacted regarding this report:	Edward J. Schneider
CPP Funds Received:	\$8,152,000
CPP Funds Repaid to Date:	\$0
Date Funded (first funding):	1/30/2009
Date Repaid ¹ :	

RSSD: (For Bank Holding Companies)	1472257
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	
City:	Annapolis
State:	Maryland

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/> Increase lending or reduce lending less than otherwise would have occurred.	Total loans on the balance sheet increased by \$13.7 million or 5.1% for the year. We experienced slow loan demand throughout 2009, but remain committed to extend credit in the communities we serve. Additionally, we continued to originate and sell fixed rate residential mortgages.
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<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	Increases in commercial real estate loans of \$4.0 million, construction loans of \$7.8 million, commercial loans of \$6.5 million, and home equity loans of \$7.2 million were partially offset by decreases in portfolio residential mortgage loans of \$9.8 million and consumer loans of \$2.0 million.
<input checked="" type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	Bolstering Capital through the TARP program enabled us to launch a successful high yield savings campaign that increased core deposits by \$48.6 million. Total purchased securities increased by \$37.2 million until these funds can be utilized to meet increased lending opportunities.
<input type="checkbox"/>	Make other investments	
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	We recorded a provision for credit losses of \$6.5 million in 2009, primarily the result of of an increase in nonperforming assets and net chargeoffs. The allowance for loan losses was \$7.9 million or 2.81% of total loans at December 31,2009.

<input type="checkbox"/>	Reduce borrowings	
<input checked="" type="checkbox"/>	Increase charge-offs	We recognized \$2.7 million in net charge-offs in 2009, \$1.6 million of which were on real estate loans, \$0.4 million on commercial loans and \$0.7 million on consumer loans.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input type="checkbox"/>	Held as non-leveraged increase to total capital	

What actions were you able to avoid because of the capital infusion of CPP funds?

Not Applicable

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

One of the most significant steps we took in 2009 was our decision to participate in the TARP Capital Purchase Program. Although Annapolis Bancorp always exceeded federal regulatory requirements for a well-capitalized institution, the \$8.2 million capital injection from the U.S. Treasury helped us to maintain public confidence at a time when much of the financial services industry was in crisis. At year-end we had a Tier 1 capital ratio of 12.5%, a total capital ratio of 13.7%, and a Tier 1 leverage ratio of 8.6%. The TARP capital proved beneficial for a number of reasons. It bolstered our already strong capital ratios so we could deal realistically and proactively with problem assets. It also helped us set the stage for continued growth, enabling the launch of our highly successful Superior Savings campaign and strengthening our commitment to lending in the communities we serve. Participation in the TARP program enabled us to continue the commercial lending efforts through our recently organized Private Business Banking division and reinvigorate our Residential Real Estate Lending division. In 2009, we also created a Commercial Real Estate Lending division to take advantage of the emerging buyers' market for commercial real estate. New initiatives like these are just some of the ways in which we are fulfilling the intent of our TARP funding and maintaining a forward focus.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

Not Applicable